SA – 811

IV Semester B.B.M. Examination, April/May 2015
(Semester Scheme) (Fresh + Repeaters) (2013-2014 and Onwards)
Paper – 4.4 : FINANCIAL MANAGEMENT
Business Management

Time : 3 Hours Max. Marks : 100

Instruction : *Answers should be written only in* ***English***.

SECTION – A

1. Answer **any eight** sub-questions. **Each** sub-question carries **2** marks. **(2×8=16)**
   a) What is Financial Management ?
   b) State the meaning of cost of capital.
   c) Define capital budgeting.
   d) Mention the steps involved in Financial Planning.
   e) What is Financial Risk ?
   f) What do you mean by ROI ?
   g) What is meant by optimal capital structure ?
   h) Distinguish between financial leverage and operating leverage.
   i) Give the meaning of profitability index.
   j) What is time value of money ?

SECTION – B

Answer **any three** questions. **Each** question carries **eight** marks. **(3×8=24)**

2. Bringout the importance of capital budgeting.

3. ABB Ltd. invested ₹ 2,00,000 on some project the project, generates profits before depreciation and tax of ₹ 70,000 p.a. for a period of 5 years. The scrap value of the project at the end of 5^{th} year is zero. Determine average rate of return for the project assuming 50% tax and straight line method of providing depreciation.
   Calculate average rate of return.

P.T.O.

4. Harshitha Ltd. has an average selling price of ₹ 20 per unit. Its variable costs are ₹ 14 and fixed costs ₹ 6,80,000. All its capital are financed by equity funds. It pays 50% tax on its income. Nishitha Ltd. is identical to Harshitha Ltd. but its capital is financed by equity and other half by debt, the interest on which amounts Rs. 80,000.

   Determine the degree of operating, financing and combined leverage at ₹ 28,00,000 sales for both the firm.

5. A debenture is available in the market for ₹ 1,000 with ₹ 80 on the interest for a year for a period of 4 years with maturity value of ₹ 1,120. The debenture capitalisation rate is 10%. Advise Mrs. Anitha in her buying decision of this debenture.

SECTION – C

Answer Question No. **10** and **any three** of the remaining questions. **Each** question carries **15** marks. **(4×15=60)**

6. Explain the factors affecting the working capital needs of an enterprise.

7. Explain in detail the functions of financial management.

8. Explain the factors which determine the dividend policy of a firm.

9. RCB Ltd. needs 50,00,000 for construction of a new plant. The following three financial plans are feasible.

   a) The company may issue 50000 equity shares at ₹ 100 per share.

   b) The company may issue 25000 equity shares of ₹ 100 each and 2500 debentures of ₹ 100 each at 8% interest.

   c) The company may issue 25000 equity shares at ₹ 100 per share and 25,000 pref. shares at ₹ 100 per share bearing 8% dividend.

   If the company's earnings before interest and taxes are ₹ 1,00,000, ₹ 2,00,000 and ₹ 4,00,000 what are EPS under each of the three financial plans. Which alternative would you recommend and why ? Assume corporate tax to be at 50%.

10. A firm whose cost of capital is 10% considering two projects 'x' and 'y'. The details of which are

Particulars	Project 'x'	Project 'y'
	₹	₹
Investment cash inflow	4,00,000	4,00,000
1	80,000	1,80,000
2	1,20,000	1,60,000
3	1,60,000	1,20,000
4	2,00,000	40,000
5	2,40,000	36,000

Compute the NPV @ 10%, profitability index and internal rate of return for the two projects separately, project x by 20% and 29% and project y by 9% and 15%. Using the following discount factor calculate IRR.

Year	Project 'x'			Project 'y'	
	20%	29%		9%	15%
1	0.833	0.775		0.917	0.870
2	0.694	0.601		0.842	0.750
3	0.579	0.466		0.772	0.658
4	0.483	0.361		0.708	0.572
5	0.402	0.280		0.650	0.497
Year	1	2	3	4	5
Pvf @ 10%	0.909	0.826	0.751	0.683	0.621
